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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 6130
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3775
RUEHBJ/AMEMBASSY BEIJING 7055
RUEHUL/AMEMBASSY SEOUL 8786
RUEHGP/AMEMBASSY SINGAPORE 6953
RUEHKO/AMEMBASSY TOKYO 8943
RUEHML/AMEMBASSY MANILA 0111
RUEHJA/AMEMBASSY JAKARTA 4107
RUEHKL/AMEMBASSY KUALA LUMPUR 3787
RUEHHI/AMEMBASSY HANOI 3358
RUEHBY/AMEMBASSY CANBERRA 4568
RUEHWL/AMEMBASSY WELLINGTON 1843
RUEHHK/AMCONSUL HONG KONG 8302
RUEHGH/AMCONSUL SHANGHAI 1246
RUEHGZ/AMCONSUL GUANGZHOU 0423

UNCLAS SECTION 01 OF 02 TAIPEI 001665

SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH and Stratford
USDOC FOR 3132/USFCS/OIO/EAP
TREASURY FOR OASIA/TTYANG
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN AND NY FRB MARIA
BOLIS

E.O. 12958: N/A
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SUBJECT: Taiwan Legislature Passes 2007 Budget

REF: 06 TAIPEI 03199

SUMMARY

¶1. In June, Taiwan's legislature passed the 2007 central budget, including the first year of funding for military procurement programs. The long delay in budget legislation may act as a drag on Taiwan's 2007 economic growth. According to estimates by economic think tanks, however, the rate will remain well above 4%. END
SUMMARY.

Long Delay in Budget Legislation

¶2. Taiwan's Legislative Yuan (LY) passed the 2007 central budget on June 15, 197 days behind the legislation deadline of November 30, 2006 set by Taiwan's Budget Law. The Directorate General of Budget, Accounting and Statistics (DGBAS) believes the delay has led to a decline in public expenditure of NT\$14 billion (US\$424 million) in the first quarter (Q1) and another decline of NT\$9.3 billion (US\$281 million) in Q2.

¶3. The DGBAS estimates that the budget delay will cause a 0.25-0.3 percentage point decline in Taiwan's 2007 real GDP growth, because major public construction projects lack funding. Nevertheless, major local economic think tanks believe that Taiwan's economic growth for this year will remain well above four percent.

Budget Cuts and Freezes

¶4. The LY cut 2.1% in funding proposed by the Executive Yuan (EY) for 2007 administrative programs. The 2007 cuts included a 40% slash in special allowances for the President, a 20% slash in

information technology equipment procurement, and an 18% cut in outsourcing funding.

¶15. The LY also froze 3.7% of the approved funding for the central authorities, which will not be released until the EY meets the LY-set requirements. One quarter of funding for the Central Election Commission (CEC) will not be available for CEC usage until the CEC is reorganized with a composition of CEC commissioners acceptable to the opposition Koumintang (KMT) and People First Party (PFP).

2007 Privatization Program Stalled

¶16. At the insistence of the opposition KMT and PFP, the LY eliminated the 2007 privatization program by cutting NT\$20.1 billion (US\$609 million) from sales of equity shares in state-owned enterprises. Under the 2007 privatization program, the Ministry of Economic Affairs will release equity shares in the Taiwan Salt Company (TSC) and the United Microelectronics Company, and the Ministry of Finance will sell equity shares in the Taiwan Tobacco and Liquor Corporation (TTLC). Both TSC and TTLC are 100-percent owned by Taiwan authorities.

Military Procurement Funding

¶17. Three years after the KMT and PFP totally blocked the special budget for three military procurement programs, the EY included the first year of funding for these three programs in the 2007 regular budget proposal. The LY approved the 2007 military procurement, but cut 60% of the required funding to NT\$9.9 billion (US\$300 million).

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The LY did not cut funding for two programs, including NT\$6.1 billion (US\$184.8 million) for P3C anti-submarine aircraft and NT\$3.6 billion (US\$109 million) for Patriot II upgrades. However, the LY totally cut NT\$11.3 billion for Patriot III missiles. The LY cut 95% of NT\$4.5 billion (US\$136 million) for submarines, with the remaining 5% to finance assessment of the submarine procurement.

YOUNG